DOCUMENT RESUME

ED 271 809 EA 018 494

AUTHOR Jefferson, Anne L.
TITLE The Manitoba Property Tax Credit Plan: Did It Achieve Its Intent?
PUB DATE Mar 86
NOTE 16p.; Paper presented at the Annual Meeting of the American Educational Research Association (67th, San Francisco, CA, April 16-20, 1986).
PUB TYPE Reports - Research/Technical (143) -- Speeches/Conference Papers (150)

EDRS PRICE MF01/PC01 Plus Postage.
DESCRIPTORS *Educational Finance; Elementary Secondary Education; *Financial Policy; Foreign Countries; Government School Relationship; *Property Taxes; *School Taxes; *Tax Credits
IDENTIFIERS *Manitoba

ABSTRACT

This study examines repercussions of the incentive nature of the Manitoba property tax credit plan in relation to local school systems' taxation practices during 1978 to 1981. Data from municipalities and province school systems were obtained from the Manitoba departments of education and municipal affairs. Investigation was carried out in five stages: theoretical determination of the net local property taxation requirement under varying values of tax credit, determination of actual property taxation requirements associated with respective value of the provincial property tax credit, determination of the net property taxation requirement by subtraction of the tax credit received by the municipality from gross or total property tax requirements, reorganization of data with school regions to determine whether increased expenditures were incurred in the form of municipal or school expenditures, and examination of increased school expenditures to determine whether increase was caused by implementation of the property tax credit. The major finding is that school systems, whose taxes were being relieved, increased their demands for funds from local taxpayers in excess, capitalizing on the situation created by the tax credit plan. This unintended effect suggests that policymakers and interest groups should more carefully consider potential effects of such plans. Two tables of data are included. (CJH)

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THE MANITOBA PROPERTY TAX CREDIT PLAN:

DID IT ACHIEVE ITS INTENT?

by

Anne L. Jefferson, Ph.D.
Assistant Professor

Faculty of Education
Department of Educational Administration and Foundations
University of Manitoba
Winnipeg, Manitoba, Canada
R3T 2N2

(1-(204)-474-9033/9019)

MARCH 1986

AERA 1986

The author acknowledges the financial support received from
The Research Board of the University of Manitoba

EA 018 494

THE MANITOBA PROPERTY TAX CREDIT PLAN: DID IT ACHIEVE ITS INTENT

For the past number of years, governments have sought to define policy so that the observed consequences would be a relief of the tax burden borne by the individual. Factors most commonly sighted for the initiation of said policy are, though not limited to, increase in inflation, increase in property values, lower income earners, private education proponents, relative decrease in public support, an aging population, and the regressivity of property taxes. Within the public education system, the linkage between observed consequences and policy may for all practical purposes be examined with respect to the property tax. As noted by Walker[1],

> The property tax is an enigma in the structure of modern public finance. No institution has been vilified so consistently over the past century, yet no institution has changed so little. While the demise of the property tax has long been heralded by tax reformers and critics of the tax, it remains a major source of revenue at the local level, especially for the public schools, and a significant factor in the total governmental tax system of most states.

A review of practice among the provinces in 1978 reveals that action taken by provincial governments to lessen the negative results of a tax system which relies mainly on property for its generation of funds incorporates the elements of homestead exemptions, exemptions based on income, homeowner grants, or property

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[1]Billy D. Walker. The local property tax for public schools: Some historical perspectives. Journal of Education Finance, 1984, 9, 265.

tax credits, or some combination. For instance, Newfoundland incorporated exemptions based on income. Here, taxpayers with annual incomes of less than $1,500 were exempted from school tax. Local taxing authorities could exempt others with incomes greater than $1,500 but less than an prescribed amount. Nova Scotia also provided exemptions based on income but the noted provision above was replaced by an authorization for municipalities to grant income-tested property tax exemptions to widows, widowers, persons 65 years old or over, and single-parent family heads. On the other hand, the provinces of Alberta and British Columbia adopted a relief program which included homeowner grants as well as property tax credits; although each program was unique in its specifics. For example, tenants in Alberta received credit against provincial income tax of 20 per cent of the rent paid minus one-half of one per cent taxable income, where the rent paid is less than $500 for the year, or $90 plus two per cent of rental payments up to a maximum total credit of $200, less one-half of one per cent of taxable income, where the rent paid exceeds $500. In comparison, tenants in British Columbia with gross income less than $15,000 received a credit against provincial income tax of the lesser of $100 less one per cent of taxable income or 10 per cent of the rent paid. For those individuals 65 years of age or older a minimum credit of $80 was established.

As amenable as these various relief programs are however, many today see the abuse that is also invited. This abuse as experienced within the province of Manitoba is the focus of this paper.

For the past number of years, the provincial government of Manitoba has enacted a series of legislative measures designed to transfer some of the cost of education borne by individual property taxpayers to the consolidated fund of the province. This translation most clearly identified by the introduction of the School Tax Reduction Act (1971). Through this Act, provision was made for the abatement of the personal income taxes of those who paid education property taxes either as homeowners or as tenants. By 1972 identified rebates were incorporated into the Federal-Provincial income tax system and by 1973 tax credits from school taxes were extended to all residential property taxes, creating the Manitoba Property Tax Credit Plan. Despite changes in the mechanics of the plan over the years, the major thrust has remained entact, namely, to ease the burden of education taxes being carried by homeowners and tenants as well as real property.

The earlier alluded to abuse comes when school systems, whose taxes are being relieved, view the existence of such a plan as the key to their felt spending shackles. Concern for the policy maker thus develops as to the association between fiscal actions at the provincial level with one intended outcome and actions assumed by

local school systems in response to the provincial fiscal actions. The immediacy of this concern for Manitoba was investigated by seeking an answer to the question: Has the Manitoba Property Tax Credit (MPTC) acted as an incentive for local tax effort, in relation to public elementary and secondary education?

Fiscal policies are not economically neutral, and intentionally or otherwise they influence the level of economic activity. What is needed is some assurance that the intended relief of the local tax burden is not having the reverse effect. The study reported below comes to grips with this issue thus providing guidance to the government of Manitoba in its future refinement of the MPTC and to all provincial or state governments with a similar or proposed policy.

Design of the Study

Data. The data required was obtained from the Manitoba Department of Education, and the Department of Municipal Affairs. All municipalities and school systems within the province were included. The years of interest were 1978-81, inclusive.

Methodology. The investigation was carried out in a sequence of five stages. Stage One involved the theoretical determination of the net local property taxation requirement if the value of the property tax credit was a) decreasing, b) held constant, or c)

increasing. To this end the work of Stone and Anderson[2] was heavily relied upon. In the case of an increasing value of the tax credit, for instance, they claimed:

> If net residential taxation were decreasing....it would suggest that local government authorities are not increasing expenditures, and thus taxation, in order to capture the increased grant funds and hold residential taxation at the previous year's level. If net taxes were constant or increasing it can be assumed that local authorities did attempt to use the tax room provided by the increased grant (p. 4).

Stage Two involved the determination of the actual property taxation requirements associated with the respective value of the provincial property tax credit. The amount of the required taxation for each school system in the province unfortunately was not readily available. The reason was simply that municipalities, not school systems, are the collecting authorities and therefore the required information was available on a municipal basis only. The resulting problem for the study was that in order to determine a dollar figure per school system one needed to know what municipalities made up a given school system plus what proportion of each municipality was within the boundaries of that system. The latter was a more serious challenge with municipal boundaries often not

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[2] Marguerita Stone and Barry D. Anderson. The effect of tax relief schemes on school expenditures and property taxation: The case of British Columbia's Homeowner Grant Program. Unpublished paper, 1983.

coterminous with the boundaries of school systems. Consequently, a system of approximation was used.

The procedure adopted in determining the amount of the levy for a particular school system was to 1) identify the collecting authorities, and 2) pro rate the portion of the proceeds of each collecting authority from the levy.

Stage Three thereby involved the determination of the net property taxation requirement by the subtraction of the tax credit that the municipality received from the gross or total property tax requirements.

Stage Four reorganized the data with school regions to permit the determination of whether increased expenditures were being incurred in the form of municipal expenditures or school expenditures.

If the observed increase was incurred in the form of school expenditures then an examination of whether that increase was greater than would have been assumed had the property tax credit not been in place was proceeded with (Stage Five).

Analyses

Tax activity of the eight education regions within the province and their respective divisions from 1978 to 1981 was monitored on each of three variables: 1) the Manitoba Property Tax Credit (M.P.T.C.), 2) the municipal tax, and 3) the special levy. To assist in identifying possible trends, the percentage annual change regionally was calculated (Table 1) and together with above results were examined for direction and magnitude of change.

TABLE 1

REGIONAL ANNUAL PER CENT CHANGE ON FIVE TAX VARIABLES
(1978 Base Year)

Region	M.P.T.C.			Municipal Tax			Special Levy (Gross)			Special Levy (Gross)			A.P.T.R.		
	79	80	81	79	80	81	79	80	81	79	80	81	79	80	81
Interlake	4.8	31.7	-	10.8	10.5	14.1	8.7	12.5	-103.6	10.4	1.5	-478.6	10.6	5.5	-46.0
Parklands	3.1	28.3	-.8	4.8	13.1	11.9	10.1	12.4	-88.3	14.2	-.7	-407.9	9.0	7.5	-36.1
Plains	3.1	28.6	1.2	6.1	6.6	11.9	10.4	12.2	-94.5	13.4	2.9	-329.1	9.5	4.9	-37.8
South Central	4.5	31.5	2.8	-3.4	16.3	1.1	12.3	17.8	-106.2	15.4	10.7	-368.8	5.9	13.6	-60.2
South East	5.4	31.9	1.8	10.0	12.5	7.2	12.0	17.4	-113.2	14.7	9.4	-485.8	12.4	11.0	-60.6
South West	1.9	28.9	1.3	3.0	5.0	13.1	12.2	14.3	-146.6	16.7	5.9	-826.3	8.5	5.4	-41.8
The North	.8	31.9	6.0	6.1	2.5	14.8	11.8	14.7	-89.8	13.4	11.5	-134.9	10.8	8.4	-47.1
Unicity	2.8	32.1	1.2	6.9	8.4	16.4	10.5	13.6	-110.3	12.7	6.0	-290.1	9.4	7.4	-26.0

Note: M.P.T.C. - Manitoba Property Tax Credit

A.P.T.R. - Actual Property Tax Required

Legislative changes in the M.P.T.C. (as reported earlier in this report) most definitely were reflected at the regional and divisional level. The stability of the M.P.T.C. between 1978-79 and the years 1980-81 was translated at each of the two levels. Regionally there was generally less than a 5 per cent increase realized. At a divisional level the benefits of the M.P.T.C. were most noticeable for Fort la Bosse (South West), Frontier (The North), and Transcona-Springfield (Unicity). Each division in 1981 received a tax credit increase over 1980 of 16.6%, 64.2%, and 18.5%, respectively. Frontier, along with Gypsumville (The North) had also received a substantial increase in 1979 of 14.3% and 46.9%, respectively, over that obtained in 1978. Divisions that tended to suffer under the M.P.T.C. despite the no change in basic value of the tax credit in 1981 were Evergreen (Interlake), Duck Mountain (Parklands), and Tiger Hills (South West). A loss in tax credit revenue to the extent of 14.3%, 10.6%, and 11.2%, respectively, were assumed by each.

Between these years of relative stability, the government did interject additional funding into its tax credit plan. In 1980, the value of the M.P.T.C. increased by 44.4% to its present value of $ 325. Although no region or division realized the full 44.4% increase, the percentage increase over 1979 was substantial. The only divisions that did not fair as well as their counterparts were Fort la Bosse (South West), Gypsumville (The

North), and Transcona-Springfield (Unicity). Here, the change over the previous year was 14.8%, 11.4%, and 19.9%, respectively.

Given the above activity of the M.P.T.C. over a period of four years, the comparative activity of municipal and educational taxes will now be looked at.

Municipally, few regions decreased the tax borne by their taxpayers. The change was slight when it did occur--The North showed a 3.4% drop in municipal taxes between 1979 and 1980. This trend was quickly altered with a 14.8% increase in 1981; second only to Unicity. Overall the inter- and intra-regional municipal tax activity appears to be little associated with the tax credit. In only 18 divisions was the percentage change in municipal taxes between 1979 and 1980 lower than the change observed between 1978 and 1979 despite the fact that there was a large influx of funding by way of the M.P.T.C. in 1980.

This minimal association between the two different tax activities did not hold when educational rather than municipal taxation patterns were aligned with the M.P.T.C. Here, there was a definite shift to increased taxation with an increase in the M.P.T.C. (Table 2). In 1979 most divisions showed increases over the previous years within the 6 to 15 per cent range. The following year (1980) this grouping moved to the 11 to 20 per cent range. The net effect to the taxpayers, however, was the reversal as many divisions gravitated to the lower end of the scale. Regionally,

TABLE 2

DIVISIONAL TRENDS WITH RESPECT TO MUNICIPAL AND EDUCATION TAXATION

(N = 53)

Per Cent Change Over Previous Year	Number of Divisions											
	M.P.T.C.			Municipal Tax			Special Levy (Gross)			Special Levy (Net)		
	79	80	81	79	80	81	79	80	81	79	80	81
< 0	3	-	16	9	4	5	2	1	53	3	11	47
0 - 5	39	-	31	10	10	4	6	1	-	4	13	6*
6 - 10	8	-	3	21	17	8	20	7	-	12	10	-
11 - 15	2	1	-	9	16	18	17	22	-	13	11	-
16 - 20	-	3	2	2	2	13	5	15	-	15	6	-
21 - 25	-	5	-	-	1	1	2	6	-	2	1	-
> 25	1	44	1	2	3	4	1	1	-	4	1	-

*In all cases the per cent change was zero.

the net effect was a decrease in the educational tax expected of taxpayers; nonetheless the dollars paid by taxpayers increased. 1981 saw dramatic shifts in the special levy. This shift, however, was not in response to any change in the M.P.T.C. but instead to the introduction of the Educational Support Program--a program which saw the provincial government once again assume major responsibility for the financing of education.

Conclusions

The study sought to provide insight into the incentive nature of the Manitoba Property Tax Credit in relation to local tax effort. Results strongly suggested the existence of such an incentive nature with relation to local school systems' taxation practices. School systems, to varying degrees, were increasing their demand for funds from the local taxpayers in excess. Theoretically, the net amount borne by the taxpayer should have shown a decrease given that the tax credit was established to lessen the educational tax burden of local taxpayers. Instead, local school systems capitalized on the situation created by the tax credit plan. Municipalities not directly benefiting from the tax credit plan showed no substantial change in taxing patterns. Most maintained a positive linear relationship over the observed four years.

These observed side effects to the provincial tax credit plan suggest that policy makers must give the potential impact of such a plan more than a political cursory examination. Policy consequences are the conditions resulting from the enactment and

administration of tax policies with a specified content. The consequences made evident by this study clearly speaks to equilibrium that was intended and where in fact the fulcrum was anchored. If the fulcrum is allowed to be displaced without appropriate adjustments then a much unwanted confounding effect is assumed.

The issue of taxation will remain a much debated issue with governments and policy makers, however, the premise of the debate needs developing. Perhaps it is time that interest groups debate the issue not only in terms of philosophy but in the maneuverability that will be permitted of those operating under the umbrella of the plan. Only with this extension will the intent and the observed meet.